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Opalesque Roundtable Series '14

FRANCE

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Editor's Note

European hedge fund managers don't just launch UCITS or Alternative Investment Funds (AIFs)

France is the second largest savings market in the world, right after the U.S. A real strength of the French market is the diversity of the industry and the number of entrepreneurial asset managers. Of the approximately 600 asset managers in France, two-thirds are small and medium sized, and some 30 asset managers are created and authorized each year. By the July 22nd 2014 deadline for implementing the AIFMD, the French regulator AMF expects to have 350 registered Alternative Investment Fund Managers (AIFMs.) in the country.

As a result of the Alternative Investment Fund Management Directive (AIFMD), most of the service providers have increased prices. Some smaller firms have decided to change service providers in order to react and cut costs. While European fund managers certainly appreciate the benefits of their European passport for cross-border marketing, tax issues remains as their most prominent concern, and probably the last hurdle to distribution in countries like the U.K. and Germany. Nevertheless, over time AIFs could potentially become as popular as UCITS both inside and outside of Europe.

Investors should be aware that European hedge fund managers don't just only launch UCITS or Alternative Investment Funds (AIFs): according to ERAAM, European single hedge fund managers also launched 83 Cayman funds in 2013. However 89% of the AUM was within nine funds - certainly a very high concentration. New investor groups like U.S. based pension funds and others have started to discover European opportunities, offered by European managers, in sectors as diverse as:

- European equities
- European corporate credit and loans
- New fields like financial credit or in the management of liquidity buffers (HQLA)
- Smart Beta 2.0
- Securitization
- European Distressed
- Investments with longer durations like real estate, infrastructure and infrastructure debt.

The Opalesque 2014 France Roundtable discusses those opportunities in-depth. The Roundtable was sponsored by Lyxor and Eurex and took place June 3rd 2014 at the Paris office of Lyxor with:

1. Natasha Cazenave, Head of the Asset Management Regulation Division, AMF
2. Denis Beaudoin, CEO, Finaltis
3. Olivier Kintgen, CIO, Eraam
4. Antoine Rolland, CEO, New Alpha Asset Management
5. Fabrice Dumonteil, CEO, Eiffel Investment Group
6. Paul Beck, Executive Director, Eurex / Deutsche Boerse Group
7. Christophe Baurand, Head of Alternative Investments, Lyxor Asset Management

The participants also discussed:

- What are the two opportunities European incubators see coming out of regulations?
- Why do European incubators love Asian managers?
- Who is driving the strong momentum of UCITS funds?
- What is the opportunity in long-term and SME financing?
- How European Market Infrastructure Regulation (EMIR) can lead to less risk and reduced costs
- What is the road to success for an emerging manager? Which mistakes can be avoided?

Enjoy!

Matthias Knab
Knab@Opalesque.com

Participant Profiles



(LEFT TO RIGHT)

Antoine Rolland, Olivier Kintgen, Fabrice Dumonteil, Natasha Cazenave, Christophe Baurand, Paul Beck, Denis Beaudoin, Matthias Knab

Introduction

Olivier Kintgen
Europanel Research & Alternative Asset Management

My name is Olivier Kintgen, I am the CIO of an asset manager based in Paris called Europanel Research & Alternative Asset Management. The company was established in 1999 with the purpose of bringing the alternative asset management opportunities into the scope of a broader range of investors in Europe.

We have expanded the model to large institutions to whom we can bring our expertise in the European landscape. Today we manage $650 million; most of our client base is actually overseas as our focus in that market is to select the best managers in Europe, with or without track record. We tend to be early stage investors in carefully selected hedge funds.

We run mandates for large U.S. pension fund and large U.S. based endowments, and of late I would just outline that we have been developing thematic portfolios with an optimal mix between fee and liquidity.

With our 15 year track record, we are trying to establish ourselves as the best Partner for any Investor looking to invest in Europe through alternative asset managers.

Natasha Cazenave
French Financial Markets Authority

My name is Natasha Cazenave, I am Head of Asset Management Policy at the French Financial Markets Authority, the AMF. I am in charge of all policy issues that have to do with the asset management industry at the national, European and international levels. I also have the privilege of chairing IOSCO's policy committee on Investment Management – Committee 5 – where we interact with a number of international institutions, e.g. the Financial Stability Board. This includes participating in the negotiations and following the implementation of initiatives such as the AIFM Directive, the UCITS Directive, the work on shadow banking, on securities lending, on the identification of globally systemically important financial institutions as well as representing the AMF within the Investment Management Standing Committee of ESMA.

Antoine Rolland
New Alpha Asset Management

My name is Antoine Rolland, I am the CEO of New Alpha Asset Management which is a pure incubator and seeding firm based in Paris. For the moment we raise assets for our incubation activities mainly in France. We have approximately EUR 500 million assets under management, which we should grow until the end of this year.

We have incubated funds in different parts of the globe. Each year we receive and analyze almost 400 incubation projects. In 2013 we were also appointed to select managers for the French seeding initiative called Emergence, which is designed to seed French asset managers. For Emergence, we have successfully completed the first fund, and the second one – a long-only fund – will start to be invested in the coming months.

Denis Beaudoin
Finaltis

My name is Denis Beaudoin, I am the Founder and current CEO of Finaltis. Our firm is active in three areas: from the start of our firm in 2001 we have provided investment solutions where we package primarily absolute return types of solutions and offer them to institutional investors. Since inception of the firm we have raised some EUR 1.5 billion in that segment. Our second activity is asset management where we manage about $300 million in a mid to long-term CTA strategy and in an European market neutral equity strategy. Thirdly, we are also active in providing operational help and capital to new managers starting up. In that field we were involved with the set up of eleven other hedge funds or asset management companies, but mainly hedge funds. In this work we basically support the young firm from all angles which are required when starting up. That can include providing seed capital, but most of the time it's about providing advice on operations and the sales effort.

Paul Beck
Eurex and Deutsche Borse Group

My name is Paul Beck and I'm responsible for Eurex and Deutsche Borse Group in Paris, covering France, Belgium and Luxembourg. Probably most of you are familiar with Eurex, one of the largest derivatives exchanges in Europe and in the world.

Eurex is a market leader in listed derivatives on equity, equity index and fixed income products, but due to the ongoing change in regulation with EMIR for example, we are expanding our business activity into the clearing of OTC derivatives, such as interest rate swaps.

We are also in the process of expanding into new asset classes such as foreign exchange, and personally I'm also responsible for the business development of a relatively new and promising asset class, dividends derivatives. Eurex was the first exchange to launch dividend futures in 2008 with the EuroStoxx 50 Index Dividend Futures and it has developed into one of the fasted growing asset class over the last few years.

Christophe Baurand
Lyxor Asset Management

My name is Christophe Baurand, I am the Global Head of Alternatives at Lyxor Asset Management. Lyxor is part of the Société Générale Group. We currently manage EUR 86 billion in assets and are active in four sectors: Structured Asset Management, ETF and Index Management, Diversified Asset Management, which includes multi-asset class, risk parity and credit products, and finally Alternative Asset Management. In the alternatives space, we manage EUR 15 billion in assets in Hedge Funds and Fund of Hedge Funds. Our Alternative Investment business is well known for our managed account approach, where we are a global leader in terms of assets.

Fabrice Dumonteil
Eiffel Investment Group

My name is Fabrice Dumonteil. I am the founder and CEO Eiffel Investment Group. Eiffel Investment Group is an alternative asset manager and investor focusing on European corporate credit and equity.

We implement both long-short and long-biased longer-term strategies. Our investment approach is fundamental, leveraging our own research on companies. The core of our investment team is a group of research analysts that basically works like private equity analysts: they meet with companies and do very in-depth research with the view to identifying miss priced situations both on the long and short side, with a very fundamental approach.

At the moment we have approximately EUR 400 million capital under management. We started at the end of 2008, at the time as a division of the Louis Dreyfus Group, the commodity merchant and trading house. In 2011 we spun out from there and became independent. Let me also mention a peculiarity of our firm: although we are still a relatively young and emerging asset manager, we have EUR 100 million of shareholders' equity, -our own capital- invested in our funds alongside our investors, which obviously is great for alignment of interest, and also enables us to over-resource the team and stay ahead of the curve in terms of infrastructure, in order to deliver a strong performance to our investors.



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Matthias Knab We are in the middle of 2014, what developments in our industry do you want to comment on?

Denis Beaudoin: **We see a significant, two-fold trend here in Europe. The first is around the further growth of UCITS that are getting more traction for liquid assets. As a side note, we at Finaltis are only involved in liquid assets. And secondly we have the AIFMD effect, which is starting to snowball in Europe, with many side effects. As of now, we are not entirely sure about the magnitude of these effects.**

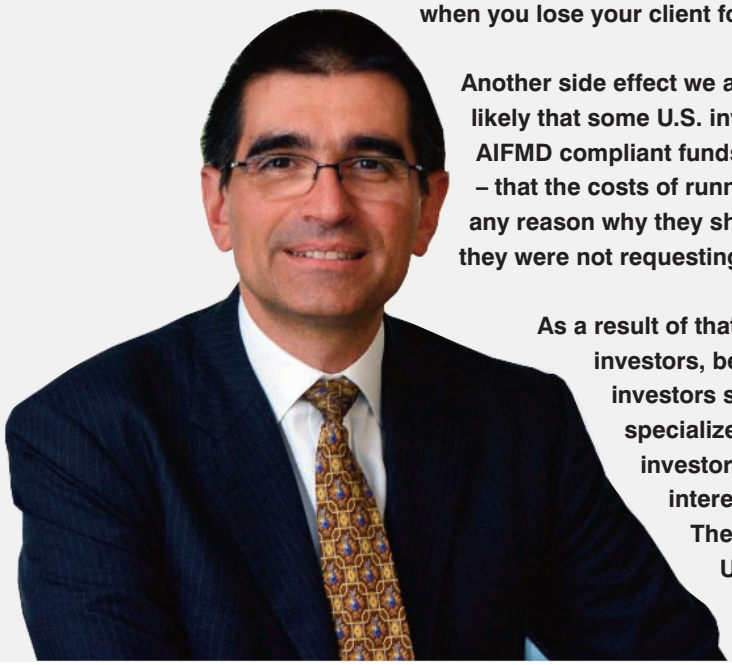
What we see is that by July 2014 all of the managers and funds under the scope of AIFMD will in fact have to move under the AIFM regime, and there seems to be kind of a bottleneck effect with most of the providers struggling to accommodate that by the time limit of July this year.

As a result of AIFMD, most of the service providers have decided to increase their prices. We at Finaltis have in fact decided that as a response to that, we have launched an RFP covering all of our funds which has led to a change of all our service providers and a lower global cost. That is of course extremely time consuming for us. So, side effect number one is that we are changing all our service providers across the board.

Effect number two is that we are thinking about optimizing our product range. Because of the price pressures, some smaller products can no longer be accommodated by service providers. Even the Fonds Commun de Placement, the French FCP investment structure which is extremely cheap to run, cannot be accommodated any more under all circumstances.

This is kind of puzzling, because on the surface AIFMD has nothing to do with French UCITS for example, but some things are also snowballing on the UCITS side when some service providers take this opportunity to increase all of their fee schedules.

Changing service providers is extremely time consuming, and we have to work harder to retain our client focus given this concentrated activity on the operational side. This is certainly a threat, because when you lose your client focus, you may lose some customers as well.



Another side effect we are concerned about is the U.S. retro effect. It is very likely that some U.S. investors will decide to remove their investments from AIFMD compliant funds on the assumption – or actually by now on the clear fact – that the costs of running those funds will increase. These investors don't see any reason why they should pay for those changes and cost increases when they were not requesting them in the first place.

As a result of that we have to carefully craft a new way to attract U.S. investors, because as also Olivier was pointing out, the U.S. investors still are the major pool of demand for us and our specialized products, and so far I don't see that European investors will step in and compensate for any potential loss of interest from U.S. investors in the foreseeable future. Therefore finding attractive and convincing proposals for U.S. investors is a survival issue for us.

Christophe Baurand: Denis' point is right. The smaller firms will be hit particularly hard by this fee increase from service providers. Asset managers are all the more pressured as their own fees have been challenged by investors for some time.



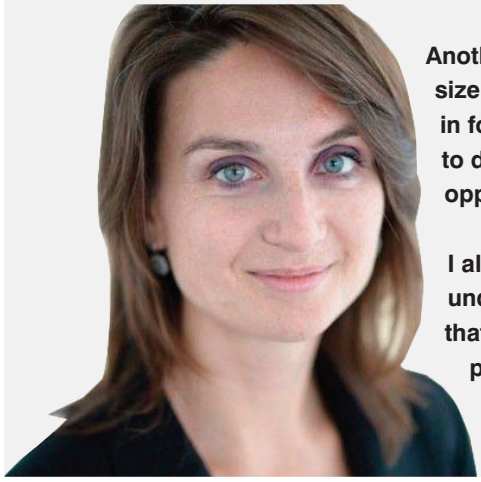
The massive change in regulation brought about by AIFMD is accompanied by a complete reshuffling in the nature of the services provided to the fund industry. In the reporting or custody side for instance, it is true that service providers are adapting their prices accordingly. However, they remain constrained too, because the industry doesn't grow and competition remains high between them.

There is a kind of reality check in terms of prices, whereby size matters. On the one hand, small funds find it much harder to cope with this type of evolution, because the prices they pay to their service providers are increasing. On the other hand, the larger asset managers are able to renegotiate prices with their service providers to the downside, in spite of the additional workload for them. This is what we have experienced at Lyxor.

Natasha Cazenave: Let me add a few elements from the regulator's perspective. I agree that the AIFMD is a very structuring directive. It does reshuffle the cards in the asset management industry, but we have a different take about what's going on as from our perspective we are looking at a broad number of aspects.

The first aspect is that in France many firms were already largely compliant with a number of the AIFMD requirements, so for them the step was not that high. Of course some requirements like the reporting to regulators are new, but to a large extent many rules were already in place in the industry, and part of the French regulation or industry practices have even inspired the AIFMD, e.g., the depositary requirements.

A very large number of entities are already authorized: more than 100 asset managers are already authorized as AIFMs, we have 130 underway, and we are expecting another 100 new applications. By the July deadline we should have about 350 AIFMs.



Another aspect worth mentioning is that, when it comes to the discussion around size, it is interesting to notice that in fact quite a few small entities have asked to opt in for the Directive, particularly from the private equity space. They are not required to do so, but they ask to opt in, and that is an indication for us that they see more opportunities than challenges with the entry into force of this Directive.

I also understand that investors outside of Europe possibly don't have the same understanding of the Directive, looking at it from outside our borders, but some of that may be part of an educational process as well. We consider it one of our key priorities to work with the asset managers, to accompanying them through this change, understanding their concerns and providing guidance to them.

Antoine Rolland: Every new regulation, when they arrive, are typically very complex to understand; even we professionals around this table don't understand all aspects of AIMFD's application, but at the end I believe it's a good thing for asset managers to be able to market all around Europe with this passport.

When it comes to my area, the field of incubating funds, we see two main opportunities coming out of regulations at the moment. One relates to foreign, non-EU based managers who want to go with these directives and try to market in Europe through an EU based incubator like us. That in turn gives us the opportunity to negotiate better terms with U.S.

or Asian managers who want to come here and don't know about the rules or don't have the infrastructure. Through a platform like ours we can seed them and also give them access to Europe that otherwise would be quite difficult for them to get.

The other positive aspect or opportunity we see is that it has become more attractive to take equity parts in asset managers. I believe that this helps to achieve a higher alignment between shareholders of asset managers and the managers themselves, whereas before a lot of money has been taken from the bottom lines of the shareholders. Now there is more alignment, and I think there is more and more value in buying and taking an equity stake in asset management firms.

We at NewAlpha will develop this portion of the business before the end of the year by developing pure private equity elements of our seeding business.

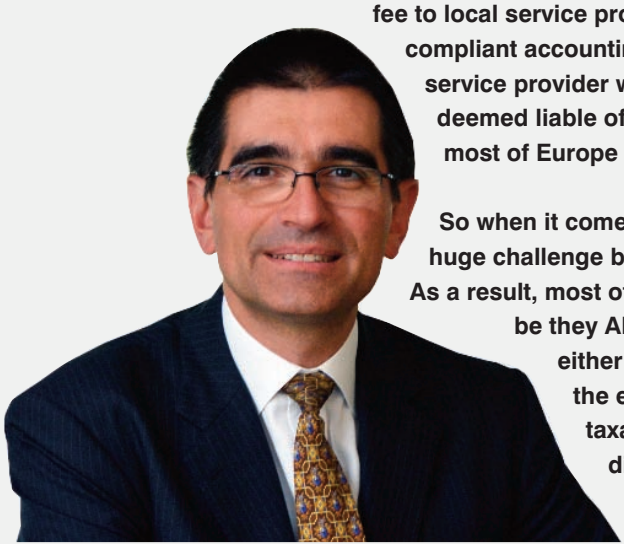


Denis Beaudoin: I agree with Antoine that it's always a good idea to harmonize offers across Europe. AIFMD of course targets the asset management companies and the supply side of the business; it is not intended to harmonize the demand across Europe, and on top there is no way we can harmonize the tax side of the business.

It is correct that AIFMD is a framework that lets you market across Europe, but in doing so, we are forgetting two key things. The first thing is that a client has to be in demand of a product. You cannot push a product onto a client when the client doesn't want to buy it, or even worse, when he is not allowed to buy the product. Even a French AIFMD product will not be bought by a French pension fund, and it is unlikely that it will be bought by a French insurance company, simply because the regulation and/or board of both entities will make it difficult or simply forbid it. You will of course find the same restriction when you take the product across borders into say Italy, Germany, or the U.K. So you are facing problems on the demand side, on the regulation of the demand all across Europe.

And the second aspect is taxation. Europe has harmonized products, services, and makes sure there is a free market, but there is one thing which is retained by each state - its tax policy; and being French we know what it means...

The tax issue also affects your distribution. Just try to take your product to Germany, you will have to pay a huge entry fee to local service providers that help you turn your accounting into German tax compliant accounting that will cost you north of EUR 15,000 per fund. So the local service provider will then ensure that vis-à-vis tax authorities in Germany you will be deemed liable of those taxes to the German authorities. And this happens across most of Europe in various shapes and schemes.



So when it comes to our business, which is basically selling funds, we are facing a huge challenge because buying funds has become such a problem for many clients. As a result, most of our European investors are unable or unauthorized to buy funds, be they AIFMD compliant or not. UCITS, by the way, did not change a thing either as far as regulation of demand and taxation are concerned, with the exception of nimble service providers having refined multi-country taxation and operational toolkits making it possible to efficiently distribute across borders (for a handsome fee, though).



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Christophe Baurand: I completely agree that the tax issue is certainly the most prominent and probably the last hurdle to distribution in the European market nowadays. But I disagree that we have a tax issue in all countries across Europe. It's very limited to a number of states, including the UK and Germany. For instance, the new AIFMD tax regime in Germany is creating major challenges for hedge fund investing.

On the other hand, the emergence of a level playing field in Europe in terms of regulation for funds that don't fall in the UCITS category definitely gives easier and safer access to institutions investing in complex strategies. We get this feedback from institutions across several countries including Italy or Germany. Many who were not comfortable investing previously in offshore funds are now considering investment in AIFs.



We are just at the beginning, but AIFMD could potentially become as popular as UCITS if it works out well, including outside of Europe.

AIFMD certainly causes trouble for small firms, because it's a lot of work and higher cost. At the same time, from a marketing standpoint, it opens doors to a harmonized market in Europe, while to some extent restricting foreign providers to sell their products as easily as before. This creates a void which can be opportunistically used by European providers. It won't last, but for now, it is favorable to European players.



Fabrice Dumonteil: In the five years we have been around at Eiffel, we have seen regulation increase drastically. Actually we rather like that and believe that it gives us a competitive edge. Indeed, European corporate credit, the market on which we focus the most, is big (1000 situations and ca. 2 trillion Euros of cash instruments) and growing, but it's not huge yet, and so we like the fact that at least for the time being European regulations tend to restrict the competition from this opportunity. For example, an U.S. based credit manager may decide that it's too onerous to comply with European regulations and therefore not fight to come invest in and market in Europe – they will leave that to us.

Olivier Kintgen: Though I am not a great expert on regulation, I just gathered a few information before I came here from my COO, and one thing he pointed to was the difference between France and Luxembourg where it seems you need a lawyer because the manager cannot speak to the regulator directly. That means he loses a lot of time, and it costs extra money. It also seems it takes four to six months to get the AIFM approval, so there is a big queue of funds waiting for AIFMD in Luxembourg.



And the market for our funds is not France, it's much bigger in Luxembourg, especially in the alternative space where we are active. So our firm invests in SIF and UCITS, and we still invest a lot in Cayman. That is also because our client base is very much U.S.-driven, they don't want to hear about anything else than Cayman still today. I also invested in new Delaware based partnerships, and I don't see a trend that this will be changing.

In a way this focus on the offshore world from the client side is beneficial for us, because we are able to deliver them products in the format they prefer. I also see that there is not a lot of expansion on the side of the European-based managers that we work with.

Our firm has been around now for 15 years, so there are a number of managers we know very well, but not many of them raise assets in the Cayman format. Actually, I think we had 83 launches of Cayman funds last year from European managers, and 89% of the AUM was within 9 funds. We are dealing with a very high concentration, and you have to be very selective, but again, if you want to deal with the U.S., you have to have a Cayman structure.



Paul Beck: Not only the fund management industry has had to go through a lot of regulatory change, also the banks and the exchanges. The European Market Infrastructure Regulation (EMIR) imposes the clearing of OTC derivatives via central counterparties. That is an opportunity for us as an exchange, but it also requires a lot of investments in terms of infrastructure, know-how, risk management, etc.

There is also a concern from institutional investors about the effects of regulation on liquidity, given that the banks are required to reduce some of their proprietary trading activity. We have had recent announcements from Barclays, Royal Bank of Scotland, UBS and Credit Suisse that are pulling out at least partially from fixed income. The question is who is going to step in when they are no longer active?

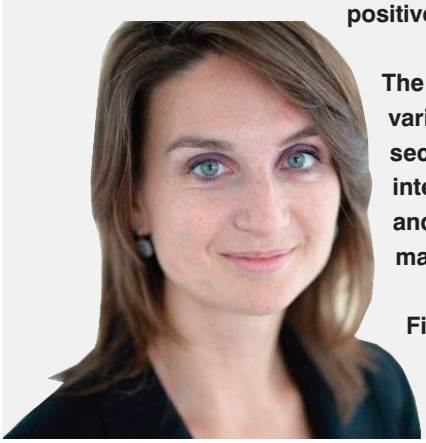
Matthias Knab Looking ahead, where can you see growth and opportunities for your companies and your products?

Denis Beaudoin: We see two areas of opportunities for us. One is through our quantitative investment strategies that we run on the asset management side of our business. In this context, we see a strong trend coming from the US and the north of Europe which is called Smart Beta. We have launched a product in that field that we believe to be Smart Beta 2.0, but we will know when we have investors for real, as marketing is only getting started.



The second dimension where we see growth for us is by our geographic focus on Northern America. I would say that at least 80% of our growth is currently generated from there.

Natasha Cazenave: As the regulator, we also have an overview of new authorized products and new company authorizations. One sector where we have seen some activity is in loan funds, funds investing in loans, which is of course the result of the banks moving away from credit. We see the development of more market-based financing as positive for the overall market.



The other sector I would like to mention is securitization. We have been very active in the various national and international efforts to try and promote a sound environment for securitization. This sector has suffered a lot from the crisis, and there have been many international efforts to re-launch this segment in a more sustainable form. Loan funds and securitization are probably two areas that may provide new opportunities for asset managers.

Finally, I agree with the previous comments that the regulatory framework has been evolving rapidly with numerous initiatives coming one after the other, all with different angles and different objectives. For example, the AIFMD focuses on

regulation and supervision of asset managers, while the recent initiative published by the European Commission on long-term investment is focused on creating a new investment vehicle to promote sustainable growth and channel savings towards long term infrastructure projects. We are also looking at money market funds from a systemic risk perspective with a view to reinforce their resilience to runs.

We understand that all these developments can seem overwhelming, and that it may also seem difficult for the market players to understand where the opportunities are and what they should be doing. However, from our perspective we do see a number of players that view the current environment and the new regulations as creating new opportunities.

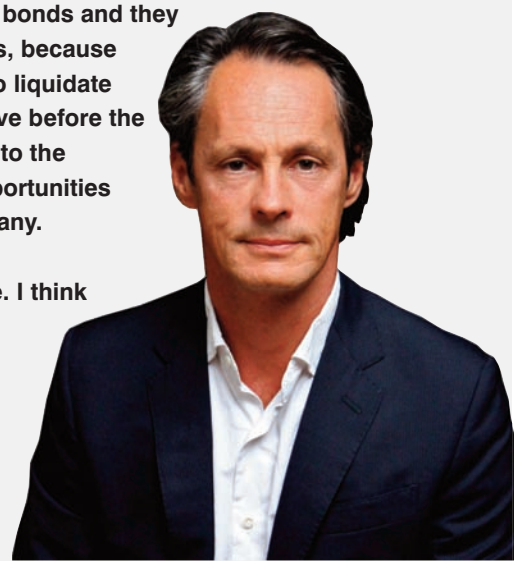
Olivier Kintgen: I am glad to hear what you are saying. Also from our perspective as a manager selector, we see opportunities for investors and also further growth in the lending space. We are also very interested in securitization. Securitization was a very commonly used tool, especially in the French market, and it was totally abandoned after the crisis - everything went into liquidation. There were huge opportunities to buy those assets in distress, and we have been doing that since 2010, unfortunately more with London than Paris-based managers. Although the skill set was also in Paris, we saw a lot of companies emerging in London or elsewhere doing those kind of trades. It could be that it was not that easy for a manager here to set up and raise money for such securitization trades.

We also see growth coming from new investor groups that are interested in our markets. For example, we are now having discussions with people we didn't talk to before, like pension funds in Switzerland and many from the U.S., and I agree with our previous observation that people from outside the EU have a lot of questions about the European regulation, the European banking system, the EU's political organs like the Commission, and so on.

In fact, Europe can be a struggle even for us being based here, so there is a clear need for people like us to translate and explain things to people outside of Europe. I have been traveling to the U.S. twice a year for the last five years, and I remember in the early days the discussion was a lot about the Euro, and now the discussion is becoming also more in-depth as for example U.S. managers are looking to invest in Europe and intent on taking a share of the market.

Large multi billion U.S. may also look at European distressed opportunities, and a typical pitch may be, "I got the money, so I will go to Spain and talk to SAREB and buy all the real estate; I will go to German banks and I will refinance", and so on. However, I think these opportunity sets are much more complex, much more fragmented; there is a lot happening in smaller size and bespoke. Sure, there is a clear understanding of investor that this is an attractive opportunity set, but many don't know how to structure it. So they are thinking about it, and maybe we should think about an available tool or vehicle that can be offered to investors as access to certain European situations.

But, when you talk to the French investor base, they have billions invested in bonds and they don't want to use their liquidity, their long-term liability, for such opportunities, because they have a regulator on their back saying, "how much time would you take to liquidate that?" So it has destroyed totally the natural buyer market that we used to have before the crisis. However now, some of them want to come back in order to participate to the funding of the real economy, but unfortunately the market is offering less opportunities now. The investors are starting to look at their options, but they don't have many.

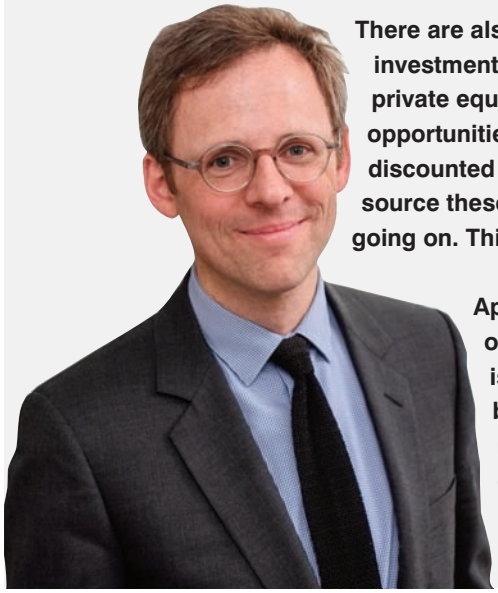


Obviously the most important thing to address is the economy here in France. I think it's important to find private pools of capital apart from the banks that will co-invest and keep the loan-to-value at a certain level. There could be an emergence of managers with that skill set, and indeed we have spotted a few who address this tremendous and diverse opportunity. In Spain the opportunity may be around consumer financing, in Germany in real estate, because there is a lot of refinancing underway and pressure on the banks,

and in U.K. it would be something else, probably even the secondary market in real state, which might be distressed. In France this opportunity is not very clear yet, because it seems to me that banks have been keeping their loans on the side and suffered in silence, but at some point also there some optimization will happen, and also probably in other countries opportunities will emerge.

Fabrice Dumonteil: Building on what Olivier just said, we clearly see many very exciting opportunities in corporate credit in Europe at the moment as a result of the disintermediation of the credit markets which is happening, however at a very slow pace. At the moment about 70% of the credit to the economy is done via banks versus maybe 80% a few years ago, compared to 30% in the U.S. That shows we have still a very long way to go, and this provides both vanilla opportunities and more complex opportunities.

Vanilla opportunities include the increasing number of new companies coming to the high yield market for "strategic issuances" at attractive yields. We had a record year in European high yield issuance last year, and while it is still only a fraction of what is done in the U.S., it shows a healthy growth. Many of these new companies are under-researched, and that is where we can make a difference with our own research capability and being based at the center of Europe.



There are also very interesting opportunities in the space that is left between the liquid investment grade and high yield credit and the jumbo illiquid credit trades that the big private equity or distressed managers fight for with their billions. These "below radar opportunities" have either a complexity or an illiquidity premium or both, for example discounted corporate loans, off-the-run CDS, complex corporate structures, etc. To source these credits, you really need to be local and on the ground to understand what's going on. This is our bread and butter.

Apart from those great opportunities in corporate credit, we also see a major opportunity set in financial credit, i.e. credit of financial institutions. This market is dealing with the transition from Basel II to Basel III where banks have to basically retire EUR 600 or 700 billion of old hybrid capital instruments and replace them with the same amount of new hybrid capital that can count as capital under Basel III. That's the CoCos or alternative tier 1. So this segment of European credit also provides very exciting opportunities for us at the moment.

Christophe Baurand: I would like to disagree to a certain extent. First of all, at Lyxor, we haven't really seen much interest in credit strategies recently. What we have noticed however since the beginning of the year is a large renewed appetite for equity related products.



There is strong momentum on the UCITS side. This demand for UCITS funds versus traditional offshore, non-regulated vehicles comes in part from private banks and wealth managers, which have been absent from the market for some years. Distributors are now actively looking for new products. They have been selling equity hedge products in the last months, such as merger arbitrage and long/short equity, now they are looking for global macro strategies.

At Lyxor we have clearly seen a shift in dynamics in the market, with a larger presence of private banks compared to the previous years. Our UCITS and managed account platform has recorded more than a billion EUR of net inflows this year, with a large proportion of private banking and wealth management clients.

Besides, there are also a number of interesting developments on the long-only side.

The loans market in particular is growing in Europe as a consequence of the regulatory changes and the efforts deployed by banks to distribute the loans they traditionally kept on their balance sheets. Funds of loans are flourishing, fuelled by the demand from insurance companies.

One last interesting trend I wanted to mention is for the asset management Industry in general and about a new development on the side of banks: the management of liquidity buffers (HQLA). Most of them are in the ramp up phase of building pools of liquid assets to reach the 60% level set by the Basel III committee for January 2015. These large pools of assets invested mostly in government and sovereign issuers bonds will have to be managed carefully to maximize yields while taking into account the constraints of banks and their regulations, such as capital preservation, OCI volatility reduction, or RWA minimization. This new multi-billion market will provide interesting mandates to asset managers capable to understand the specificities of the banking environment.



Paul Beck: While for most market participants regulation has created pressure on the short-term and increased costs, there are also opportunities in the long-term. For example, when shifting OTC business to a central counterparty, this should result in a reduction in counterparty risk. The markets will also become more transparent, for example though daily mark-to-market and daily margin. Investors will benefit from a potential margin offset between OTC derivatives and exchange-listed derivatives, as Eurex has put in place already on the fixed income side. The increased market transparency and potential margin offsets should also attract new entrants. Funds that do not have ISDA agreements in place with all the different counterparties or funds that are not allowed to trade OTC, for example, may now be attracted to these products, and this could result in new business opportunities in the long-term.

Antoine Rolland: We talked a bit now about opportunities coming from the U.S. or here in Europe, but we also see all sorts of opportunities in Asia, also in terms of the quality of manager we meet there. That is a development which will continue for the next ten years and offering a lot of opportunities for incubators, finding the future big players based in Asia who manage money locally.

When it comes to new product launches, I would like to point to the big dislocation we have in our industry with the concentration of assets in the hands of only a few very large players. That makes it still very difficult for small companies to raise assets. This in turn will sustain the opportunities we have now in the incubation business – it's a good space to be because this environment helps you negotiate with managers who are struggling to grow and therefore intent on finding intelligent partners who help them develop their business.



I also see that funds of funds dedicated to emerging or smaller managers are receiving more interest now. The dislocation caused by the concentration of assets with the very large players also means that there is a lot of talent that many investors are ignoring, but not all of them. In the U.S. we could observe that more people have become active in trying to find talent among the smaller firms, so eventually also this segment will be growing.

When it comes to strategy outlooks, there may still be opportunities on the credit market, but if you look at the combination of a lack of liquidity in the market right now after five years of equity bull market and the very low VIX level, I also think that a lot of investors are attracted by market neutral or decorrelation strategies right now. Investors are starting to become a little bit afraid about what could be the next moves in the markets, so they come to us and express their need for market neutral and uncorrelated strategies.

Natasha Cazenave I just wanted to ask a question before we move on. A number of initiatives, both at national and European level, aim at promoting long-term financing and SME financing in various ways.

It would be interesting to hear your views, whether you think that this is a real opportunity for asset managers, whether there is demand in these segments, if you believe the proposals put forward could work?

Olivier Kintgen: I think there is definitely a gap to fill. When you look at a longer-term financing of say five to seven years, that has traditionally been the domain of the private equity guys because they have these relationships with investors to manage and keep their money for seven to ten years. However, we think that to address this gap, we don't need to have a seven to ten year lockup. I agree with Fabrice that there is a sweet spot in the shorter duration of say three to five years, which in my view is a great area of market today.

When I talked to investors three years ago, everybody wanted liquidity and the option to get to their money the next day, and that of course means UCITS. Now, three years later, investors see that UCITS wasn't necessarily a success in terms of performance. We discussed a lot about regulations today, but at the end for investors the bottom line is quite important. Investments need to perform. In that respect, I think there is a tremendous gap between the liquid alpha and and the alpha you can get on the more illiquid side. That gap is astounding, and it offers investors a broad range of different kinds of risk.

However, all of us went through 2008, which means we have to be very cautious and also think of certain lockup vehicles, because none of us wants to be a forced seller again.



We would like to have the ECB bridging the gap but realistically it is about recreating a chain of confidence in lending. Interestingly enough, the American asset managers can be convinced, because they went through this in their own country, so they understand the philosophy of what we are trying to achieve. The problem is that because they are so far away, they aren't comfortable with how Europe looks from overseas. Hence they rather invest with a U.S.-based manager. However, I think the know-how is within the European-based manager with an origination background or a very strong fundamental analysis engine. It is probably one great opportunity for FOF to set a proper diversification within some managers, and because we do emerging managers historically we have a very smart proposition to show in that space, and it will be an emerging manager story, I think.

Our country has amassed huge savings, but these savings don't want to catch the illiquidity premium – unfortunately people are totally stressed with that...

Antoine Rolland: On the other side, we have noted that French institutions are expressing now appetite for real estate, infrastructure and infrastructure debt. These investments have started to grow in 2013 and also this year. So people are going for a higher duration of seven to ten years, and this will continue to grow very fast until inflation is coming back, but nobody knows when that will be.



Denis Beaudoin: **At the end of the day, it all boils down to how risk is rewarded or priced by a market.**

When it comes to regulation, I want to address again how demand is in effect regulated. I think we are dealing with an unfortunate misfit in the sense that most of the potential investors, be they retail or institutional, are not encouraged towards taking risk, be it illiquidity risk in the form of long-term investment, equity investment, or any kind of risks. In fact, taking risk, which is key to truly financing and supporting the economy, seems to be penalized most of the time.

So when we tackle the issue of long-term financing the real economy, we have to bear in mind that, as we mentioned, France is a huge savings country, but those savings are somehow redirected towards investments which are poorly effective when it comes to real financing.

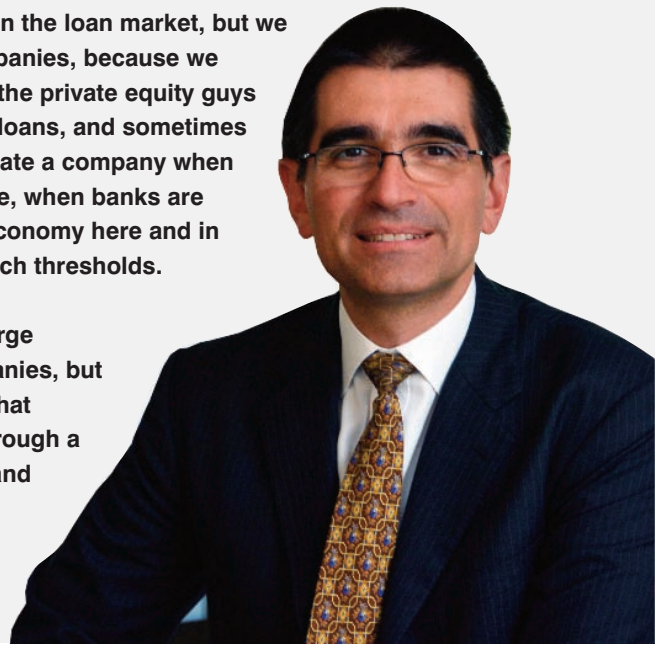
France is the second largest savings market in the world, right after the U.S. And despite this strength we have been unable to redirect these funds where long-term investment should be, primarily equities as the highest rewarding long-term investment in the world with a proven 3% year-on-year premium on anything else when investing for the very long-term. But it seems that France is a country of Keynesians sticking to the saying that "long-term, everybody is dead". For some unlucky reason it seems to be strongly enshrined in all minds that equity investment is bad. So the first thing that needs to be done around long-term financing is to start with educating everybody about equity investing, which is the number one long-term financing.

And then you can scroll the balance sheet taking very long-term bonds or very long-term financing, like 30 years somewhat illiquid investments, which is what is needed when it comes to infrastructure finance, for example. However, as of today, we don't have such vehicles in the asset management industry that would be required to pull those projects.

So if you want to go into mitigating your long-term infrastructure product, there is no such thing as a 30-year collective investment scheme. That means institutions will go project by project and invest in those projects and face the risk associated with such long-term investments.

And then going further down the balance sheet (or up for US GAAP), you have instruments which are eight or nine year vehicles, like FCPR and the likes, which are indeed very interesting. However, those are primarily designed for illiquid, unlisted equity investments or equity like investments, so there is a strong need for vehicles with a seven to nine years investment horizon, which are extremely important when it comes to the loan market. This is just getting off the ground through FCT.

As an investment solution provider we are very much interested in the loan market, but we find it extremely difficult to source loans with medium sized companies, because we simply don't have the contacts with those companies. And while the private equity guys could typically have those kinds of contacts, they tend to forego loans, and sometimes even equities as it is not worth the time spent on a file to investigate a company when the investment sum is below 10 million or so. Yet at the same time, when banks are pulling out because of misconceived regulatory pressures, the economy here and in many other countries has this huge need that is exactly below such thresholds.

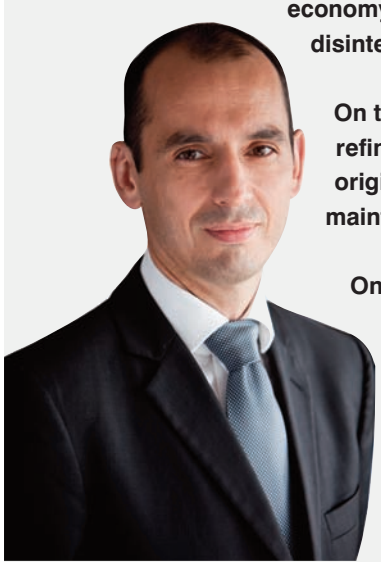


If you look at the economic landscape in France, we have very large companies and then an enormous backbone of very small companies, but we have nothing in between. In our view, one of the reasons for that imbalance might be because we are unable to bridge that gap through a decent financing for those companies. We need to address that and provide capital to small to medium size companies, which as of today cannot find financing in a decent way, if at all.

Christophe Baurand: Many countries in Europe, and particularly France, don't have a deep rooted equity culture. It evolved over time, but we remain far behind the Anglo-Saxon world.

On the loan side, I think things have changed rapidly in Europe. Disintermediation has started as a response to the crisis and the regulatory changes. This has translated into the emergence of funds of loans, as well as direct placement of loans to institutional clients looking for yield, like the large insurance groups through their asset management arms.

This phenomenon has gained momentum, but it is a long-term process. Europe still lags behind the U.S. where the economy has started this process in the 70's. In Europe, we are in a transition phase where the disintermediation process is slowed down by a few of short term factors.



On the one hand, the banking industry is better off than a few years ago. Banks have refinanced and started to reduce their leverage. Their appetite to distribute the loans they originate is now lesser than two years ago. They are more inclined to keep them in order to maintain stable revenue streams from their credit books.

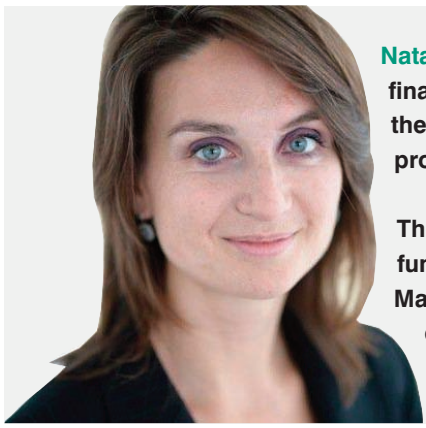
On the other hand, the short term demand from the market has been partly met. Insurance companies and pension funds have started to invest a fraction of their assets. But European loans remain relatively illiquid, which limits the size of the market.

Eventually, we are looking at a sustained long-term development, comparable to the U.S. Banking disintermediation and deleveraging in Europe will continue, bringing interesting opportunities for investors with appetite for stable returns.

Olivier Kintgen: I still think that the main issue that is still not addressed or solved is the need for the right vehicles to provide such mid-term financing. When smaller players like us or Denis are trying to create value for clients in the loan and the credit space, that value is not in a large, massive distribution. What we'll be doing is a rather small investment in which you don't want to be liquid, otherwise it's going to be a disaster. So if you want to match three or four years SME loans, you do it with a three to five year product, and we still need the framework for this.



The irony is that the insurance companies could do such investments, they have super long-term visibility on their liabilities, but they don't use it to invest that way.



Natasha Cazenave: Correct me if I'm wrong, but I think we do have a framework for financing the economy in France, and I'm surprised to hear you say that you don't have the right product range or vehicles for that. We probably have the largest range of fund products available than anywhere else in the world.

The AMF has been very much involved in a number of initiatives aiming at channeling funds towards SMEs (e.g. the creation of Enternext, the PEA-PME, Nova, Novo, etc.). Making finance meaningful again is at the core of the AMF's strategic plan. We will continue to work to ensure that funds are directed to the right companies where the needs are, but maybe I misunderstood the comments made on this point.

Olivier Kintgen: You are right, but I am looking beyond that to the large pools of money in France, like the insurance companies. We need to reassure them that it's not a bad thing to invest in equity or other longer-term oriented investments, that is my take.



Matthias Knab Quite a few of you are involved with emerging managers, even Lyxor has started to actually seed managers. I was wondering, from your perspective as seeders, incubators, first or early stage investors, how does the road to success look like today for an emerging manager?

Olivier Kintgen: We have been doing emerging manager for the last 15 years. More than 52% of our investment over those 15 years has been with managers with less than one year track record, so I think we know a little bit how it works.

If you study our industry, you will agree there is a before 2008 and after 2008. To target multiple jurisdictions, developing different target customer bases has become a huge challenge for managers today.



If you start up with a Cayman fund and try to make it UCITS, then you spoil your Cayman investors because you making it more liquid, but maybe not cheaper. So you may have to rearrange your fees – these things are complex.

Managers today face a challenge due to the multiplicity of potential vehicles that can actually cannibalize each other. That is the first challenge - if you are an emerging manager you need to decide who will be your target customer? And that's where you start from today.

Other considerations are related to the liquidity profile of the strategy and barriers to entry. Funds in markets that have barriers to entry like credit, convertible or the event space may be faced with a break-even of at least $100 million in assets today, if not more. To reach such an asset size is the main hurdle. Before it was easy to start small and grow, but today that is much more difficult.

Antoine Rolland: We all know it has become very challenging for emerging managers. When you analyze an emerging manager, you will be looking at his ability to make money. I believe some recent developments have made that easier for managers. Today, access to information has become easier. The service provider universe has been commoditized to a certain extent, so setting up a company now in a way is easier than before, and managers can access a broad range of products now that they weren't able before. I agree with Olivier that setting up in certain strategies is more complex and that you need to deliver and to outperform your peers, but I don't think there are such high barriers to entry in general.

The difficult part for a manager really starts on the development side. It does take years to raise assets, and it has become much more difficult than before the crisis, the channel have transits.

Therefore, what you need is time, and unfortunately many people forget that time is money. That makes it very challenging for a young company, because when they make a business plan tend to say things like, "well, next year we

are going to raise 200 million", and then it's not that next year but maybe two or three years later. That means if you start in this business and you don't have cash to make the business sustainable for at least three or four years, then forget it, you won't succeed.

Today, managers all face the same challenges regarding marketing and development. People say they will raise assets because they make money, i.e. because their fund performs, but this is not true. Success in marketing a fund is not linked to the performance, but to investor appetite, to the way you can market the fund, and to how much time you can spend to raise assets. So again, time is money.

From our side as incubators, we believe that the corporate side of the manager's business is also extremely important: how the company is structured, everything around the shareholders, the alignment of interests, the incentives, how people are remunerated, all those things will be extremely relevant from the first day you are starting your firm.

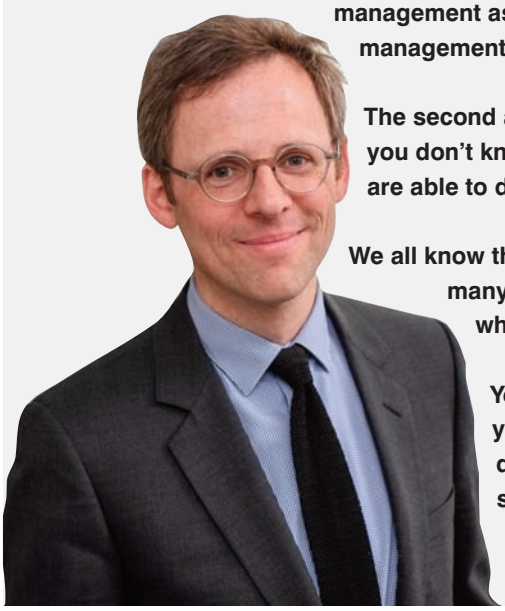


Lastly let me also add that we see lots of people making mistakes in terms of their adaptation or options regarding regulations. Sometimes managers don't spend enough time to choose the right product or the right angle to attack their market. For example, we have seen lots of people who have decided to create a highly volatile offshore product and later they realize that the same strategy run under the UCITS framework yields a target return between four to six at a lower volatility, and they could raise a billion with that as opposed to trying to raise 100 million with an offshore products.

Matthias Knab Fabrice, please tell us what was your experience setting up? What helped you succeed?

Fabrice Dumonteil: I'm not sure we have succeeded yet but let's say we are on the way to success... Performance remains the key diver: you need to perform consistently; you need to deliver what you promised to your investors.

I agree with Antoine that there are other vital aspects you need to take care of, like having a very robust corporate setup. Before 2007 you could start in this industry in the proverbial "two guys with a Bloomberg" format, if you had a good pedigree from a large investment bank, and raise a lot of money. Now, you have to think about asset management as an industry like any other, so you have to build a company with processes, management and rules that help you support your growth.



The second aspect is having enough capital when starting out, as Antoine said, because you don't know how long it will take you to grow even if you run very good strategies and are able to deliver very good performance,

We all know that raising assets is not a straight line, it goes by cycles. You have to have many starter lines to succeed. You need capital to be able to basically hold on for a while until you start having success.

You should also take great care to develop a strong network of partners to help you - people who help you build your reputation, who are able to help you distribute and raise capital. We have done that with the support of the French seeding initiative Emergence and other very close investors. We have also built a partnership with Blackstone's fund raising division Park Hill; this is especially key in the U.S., which is a geography where we do not have a

natural presence and reputation.

And finally, you need a great team of people who are the best in their fields and who are also able to work efficiently as a team. At Eiffel Investment Group, principals each have 20 plus years of track record, and we have worked together successfully since the creation of the firm. And we also have a great group of more junior team members with 2 to 10 years of experience. So our business is clearly not a "one man show".



Paul Beck: I would add that it's also important to differentiate yourself. Fabrice for example is specialized on European credit. There are not that many players in that field. If you have already 100 funds or more that focus on long/short or global macro, I think it's difficult to come up with the $50-100 million to start a new fund and compete with them.

One participant from last year's Roundtable, Melanion Capital, is a good example of a fund with a differentiated strategy. They focus on one asset class only, dividend derivatives. They launched last year and have already reached EUR 100 million, so it is important that you find your niche and have a unique selling point.



Christophe Baurand: In the last twenty years or so the environment was favorable for asset management businesses in a context of overall bullish markets. Now the industry faces more complex challenges. Competition is fierce so people reinforce their approach to products, services, marketing, communication and sales, which have not always been at the center of their reflection in the past. Performance remains a strong driver for the business but is no longer the sole recipe for success.

More than ever firms need to have a precise understanding of what their clients want. Many are nowadays looking more for dedicated solutions rather than commingled products. Infrastructure, processes, predictability, transparency, reporting, simplicity, diversification and innovation are key features that more than ever complement the performance angle.

This evolution makes it more difficult for emerging managers to get institutional money by themselves. The role of companies like NewAlpha or Lyxor becomes even more crucial in this context. They bring a framework in which institutions can invest, which includes not only manager selection and monitoring, but also a robust operational framework, enhanced reporting and risk control.



Natasha Cazenave: A real strength of the French market is the diversity of the industry and the number of entrepreneurial asset managers. There are approximately 600 asset managers in France of which two-thirds are small and medium sized. About 30 asset managers are created and authorized each year. This is a major strength of the industry and reflects its dynamism and innovation capacities. Many asset managers here in France are recognized for the quality of their management and expertise, including internationally.

Matthias Knab One of the great recent initiatives of the French market is the Emergence Seeding Fund. Antoine, could you please give us a brief update where the program stands now and what will be the next phase?

Antoine Rolland: We finalized the investment of what we call Emergence One that was dedicated on alternative asset managers. We raised EUR 150 million for that fund, and that money has been invested equally in five France based managers, the last one was actually announced actually last week. We are now raising assets for the second Emergence fund which is dedicated to long only asset managers.

We also see a good opportunity set in that sector. For example, in 2013 the growth of the smaller and entrepreneur-led long only asset management firms in France was better compared to the established ones, including companies like TOBAM. So we believe there a good opportunity set in terms of incubating long only players, in terms of both incubation and investing. We have already raised EUR 120 million and hope that the closing will be in September in with EUR 200-300 million.

I agree with Natasha that we have a lot of good entrepreneurial projects in France. Despite what some people or the media say, France is still a good country to set a business. We have a good infrastructure and an impressive quality of the management and education. The European passport allows you to travel and to sell your product if you are good – maybe the only thing you could say that people are missing here is the capacity to export their business model.

So also on the long only side that we are analyzing now we see good quality, and after having analyzed 70 asset managers, we think we will announce the first investment, possibly in July.

But before I close, I also want to reflect a bit further on the state of alternative investing in France. As I said at the beginning, there is a dislocation in the industry caused by the asset concentration at the level of the larger firms, so there is a disconnect between investors and young asset managers. That is exactly where we are stepping in at NewAlpha and the Emergence Funds.



So my question is: if in the end we raised EUR 400 million, is it a success? I am not so sure, because I tend to believe that if we were based in the U.S. or some other place, we may have raised significantly more assets. Now, don't get me wrong, some of the larger institutional investors of France are invested in Emergence. We have spent a lot of time and effort to educate investors to take a little bit of risk because the product has a lock up that is a slightly higher than a classic fund of funds, it's a bit more complex. My team and I have been doing this this education for the last two or three years, and being an optimist I think that in the end the commitments we got could have been bigger, particularly on the long only Emergence Two fund. However, we are still in the process of raising the capital, so we thank all the big investors who follow us on the first and second compartments, but still other investors seem to still be a bit afraid and don't want to go to cross the river and invest in an innovative incubation vehicle.

Matthias Knab Emergence Two is the latest project at NewAlpha, please share with us some of the the other new things, products and services you are developing or offering at your respective firms?

Christophe Baurand: We are currently increasing our external manager selection capacities at Lyxor to include the mutual fund space on top of hedge funds. This new development will enable us to propose various products and services, breaching the gap between the two universes. Among others, it will reinforce our capacity to identify new talents and raise capital for emerging asset managers with an edge.



Besides, we are trying to bring innovation to the market in order to match demand for new

opportunities. Examples include the launch of new hedge funds strategies in the UCITS space, managed by exceptional managers like Canyon, Tiedemann and Winton.

The loans market is also a promising area for investors as discussed previously. We are currently launching two new funds, one LBO senior secured loans funs and an Italian SME (minibond) fund.



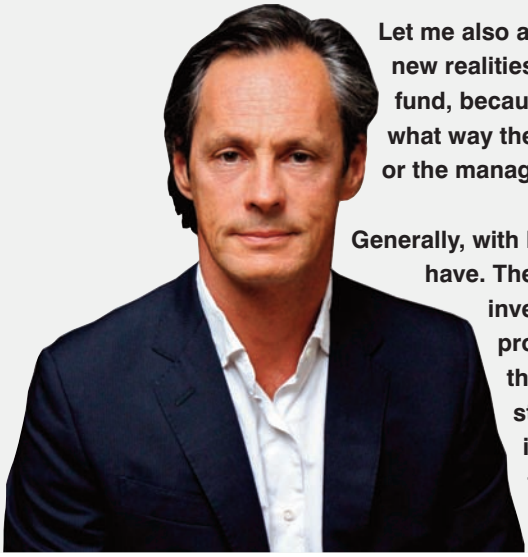
Paul Beck: On our side we are working on expanding the dividend segment. We have recently listed dividend futures on U.S. stocks such as Apple, Bank of America, etc. We will also be launching FX futures and options in July and swap futures and variance futures in autumn. The latter two are examples of existing OTC products that we want to bring into the listed space, trying to be at the forefront of innovation and not only adapting to but facilitating regulation with new products.

Fabrice Dumonteil: Our firm is currently expanding in two directions. The first one includes bespoke credit mandates with a longer (typically three to five year) horizon for mostly non-European institutional investors that want to have exposure to the recovery of Europe and to the banking disintermediation we described before. We are also expanding into the UCITS space, obviously not with the same strategies; we are just launching a flexible UCITS credit fund as a response to the needs of investors in Europe.



Olivier Kintgen: We already mentioned that fees have been increasing everywhere, so the challenge for us is to offer products that have the characteristics of alternatives together with a fee structure that still works in environments where absolute returns might be below the usual double-digit numbers.

So on our side we have gone two ways. We kept the Cayman structure for the American customers and are very happy to continue that and expand on that fund. We have a nice track record there, especially with the emerging managers. We are also keen to further develop vehicles and grab the illiquidity or complexity premia that are available. We assume that those complexity premia can be well exploited by emerging managers, and maybe better than the traditional managers, because they usually are not multi billions of dollars kind of opportunities but often below $100 million kind of niche opportunities.



Let me also add that with 2009 we have adapted our manager selection process to the new realities. So today, we also want to know who is the largest shareholder in the fund, because and that will give me an idea of how risk will be managed in that fund, in what way the passive, left-hand side of the investor's balance sheet is driving the CIO or the manager to manage its fund.

Generally, with less people in the fund, the more transparency and more access you'll have. These type of considerations help us to achieve a better return in our investments, and again, a good number of strategies we are interested in are probably the less liquid, like credit or also activist strategies where alpha is there and probably protected for some time going forward. But not all strategies will be illiquid – equity strategies can have a daily liquidity which is superb, but have in mind that then you are fighting with many others for the same alpha. I agree that a focus on niche strategies like the dividend strategy Paul mentioned is a good idea, this is the kind of thing we are

looking for – people with a great niche where they can really demonstrate there is alpha. I view equity long/short or the macro funds as very challenging.

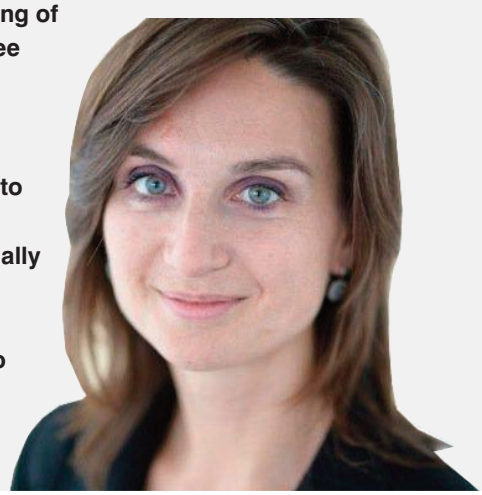
We can also manage UCITS product today – this space has considerably matured. When I looked at UCITS in 2009, there were less than 100 managers, whereas we feel today that with 200-400 managers we can make a good selection. But also, when you invest in UCITS funds you need to be candid and tell your investor that with weekly liquidity comes less choices in strategies. So if the investor wants me to shoot for double digit returns, then he will probably be a bit disappointed. With an UCITS fund of funds it will be more reasonable expecting LIBOR plus 500-700 opposed to the higher returns offshore Cayman funds can offer. But that really is just a matter of discussion with your customer, you need to be very transparent.

Matthias Knab Any final reflections on this Roundtable?

Natasha Cazenave: To conclude, I would like to thank you Matthias for this interesting debate. Beyond the insights on market developments and challenges, there are a number of points I will take away from this discussion.

First, the need to look more closely at the demand and investors constraints. It's worth mentioning that one thing the AMF did when preparing for the implementation of the AIFMD was to reach out to institutional investors in France to hear their views and identify any specific institutional investors regulations which needed to be updated, particularly with a view to facilitate access to products outside the UCITS world.

Secondly, I fully agree that we have a responsibility to explain European regulation outside the EU. This is all the more important in a context where there are more and more directives, regulations and guidelines being published. In my capacity of Chair of IOSCO's policy committee on investment management, I strongly encourage all members to present and discuss new regulatory developments to ensure better understanding of major regulatory changes in the United States, Asia or elsewhere. The Committee comprises representatives from 30 jurisdictions around the world and therefore constitutes an ideal forum for exchange of information on such reforms.



One of the major priorities we have when we discuss all these new initiatives is to try and promote as much as possible convergence and consistency. Trying to make sure regulations are consistent both at the European level and internationally and workable from the operational perspective is a major challenge.

In this environment of increased regulation and acknowledging there is more to come, we are committed to accompany the markets so that, together, we can make this work.

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